

## Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00  
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INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04  
USIA-06 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07  
PA-01 PRS-01 XMB-02 OPIC-03 /117 W  
-----091944Z 113780 /40

R 091851Z FEB 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 5493  
INFO AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
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E.O. 11652: N/A  
TAGS: ETRD, ENRG, EGEN, GW, SA  
SUBJECT: FRIDERICH'S VISIT TO SAUDI ARABIA; SECOND  
MEETING OF THE GERMAN-SAUDI ECONOMIC  
COMMISSION

REF: BONN 1296

1. SUMMARY: HIGH-LEVEL FRG VISIT TO SAUDI ARABIA  
APPEARS TO HAVE MET THE FRG'S MAIN AIM OF EXPANDING  
ITS PRESENCE IN THE AREA AND OF BROADENING THE DIALOGUE  
AND PERSONAL CONTACT WITH SAUDI OFFICIALS. IN CONCRETE  
TERMS, THE VISIT IN CONNECTION WITH SECOND FRG-SA MIXED  
COMMISSION MEETING DID NOT PRODUCE MUCH-AND WORKING  
LEVEL OFXW EXPRESSED DISAPPOINTMENT THAT INVESTMENT  
AND TECHNICAL ASSISTANCE AGREEMENTS ARE STILL NOT READY  
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FOR SIGNATURE. ON THE INDUSTRIAL SIDE, THE HIGH-LEVEL  
BUSINESS DELEGATION HELD EXTENSIVE TALKS REGARDING  
FURTHER GERMAN INVESTMENT IN THE OIL, PETROCHEMICAL,  
RAW MATERIAL, AND FERTILIZER SECTORS, BUT NO DEALS  
WERE CONCLUDED. END SUMMARY.

2. ECON MINISTER FRIDERICH'S, ALONG WITH ECONMIN STATE

SECRETARY ROHWEDDER, ASST. SECRETARY STEEG, KUSCHEL, DIRECTOR OF OFFICE FOR OPEC AFFAIRS IN ECONMIN AND HIGH LEVEL INDUSTRIAL DELEGATION, REPRESENTED THE FEDERAL REPUBLIC IN THE SECOND MEETING OF THE MIXED GERMAN-SAUDI ARABIAN ECONOMIC COMMISSION. IN ADDITION TO HOLDING DISCUSSIONS WITH THE SAUDI MINISTER OF INDUSTRY, FRIDERICH'S MET WITH KING KHALID, CROWN PRINCE FAHD AND OIL MINISTER YAMANI. OUR SOURCE (KUSCHEL) WAS WELL-INFORMED ON ALL OF THESE DISCUSSIONS AND STAYED ON FOR THREE DAYS IN RIYADH FOLLOWING FRIDERICH'S DEPARTURE TO CONTINUE ECONOMIC DISCUSSIONS IN FURTHER DETAIL. FOLLOWING PARAGRAPHS ARE BASED UPON KUSCHEL'S BRIEFING, FRIDERICH'S PRESS STATEMENTS, AND BACKGROUND MATERIAL FROM ECONMIN PUBLICATIONS.

3. OIL SUPPLIES: THE FRG IS NOT INTERESTED IN A SUPPLY CONTRACT SIMILAR TO THE ONE SIGNED BETWEEN FRANCE AND SAUDI ARABIA, SINCE THE FRG CONTINUES TO BELIEVE THAT THIS IS A MATTER FOR THE OIL COMPANIES. OFFICIALS FROM Veba ACCOMPANIED FRIDERICH'S AND REACHED AGREEMENT ON INCREASED OIL PURCHASES FROM SAUDI ARABIA TO BEGIN EITHER LATE THIS YEAR OR IN 1978. THE MEMORANDUM SIGNED BY FRIDERICH'S AND ECONOMIC AND FINANCE MINISTER MOHAMED ALI ABUL-CHEIL (GERMAN SPELLING) COMMITS SAUDI ARABIA TO AN EXPANSION IN ITS DELIVERIES TO THE FEDERAL REPUBLIC. DURING HIS DISCUSSIONS WITH YAMANI, FRIDERICH'S TOOK PAINS TO EMPHASIZE THE GREAT DEGREE OF RESPONSIBILITY AND AWARENESS VIS-A-VIS THE INDUSTRIAL NATIONS WHICH SAUDI ARABIA HAD SHOWN.

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KUSCHEL DENIED NEWSPAPER REPORTS THAT THE TWO COUNTRIES WERE CONSIDERING THE CONSTRUCTION OF A JOINT OIL REFINERY. THIS SUBJECT WAS NOT DISCUSSED, AND KUSCHEL DID NOT NOTICE ANY INTEREST ON THE PART OF THE SAUDIS FOR SUCH A REFINERY, ALTHOUGH THEY ARE REPORTEDLY INTERESTED IN CONSTRUCTING FACILITIES TO PRODUCE FERTILIZER AND PETROCHEMICALS FROM OIL. WE ALSO UNDERSTAND THAT DEMINEX IS INTERESTED IN BIDDING ON FUTURE OIL CONCESSIONS AND IS CURRENTLY ON THE SAUDI WAITING LIST FOR AN OIL CONCESSION LICENSE. KUSCHEL SAID THAT THE POSSIBILITY OF COMMON EXPLORATION AND LIFTING WAS DISCUSSED, BUT HE PERSONALLY FELT THAT THE CHANCE FOR FURTHER EXPLORATION INVOLVING GERMAN FIRMS WAS SLIM.

4. INVESTMENT AGREEMENT: NEWSPAPER ACCOUNTS PRIOR TO FRIDERICH'S DEPARTURE HAD SPECULATED THAT THE INVESTMENT SUPPORT AGREEMENT, WHICH HAS BEEN UNDER DISCUSSION FOR SOME TIME, WOULD BE READY FOR SIGNATURE

BY THE TIME OF FRIDERICH'S DEPARTURE. HOWEVER, KUSCHEL TELLS US THAT LITTLE PROGRESS WAS MADE ON THE AGREEMENT. THE FRG IS ANXIOUS TO CONCLUDE THE AGREEMENT AND THE ADVANTAGES FROM ITS CONCLUSION ACCRUE ENTIRELY

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R 091851Z FEB 77  
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TO THE SAUDIS (THE FRG CAN THEN GUARANTEE GERMAN INVESTMENTS AGAINST NATIONALIZATION AND EXPROPRIATION), BUT THE SAUDIS WERE APPARENTLY NOT IN A POSITION TO REACH A FINAL DECISION. KUSCHEL LAMENTED THE SAUDI BUREAUCRATIC SITUATION, CLAIMING THAT NO ONE COULD BE FOUND WHO WAS WILLING TO TAKE DECISIONS ON EITHER THE TECHNICAL OR "POLITICAL" POINTS OF AN INVESTMENT AGREEMENT. THE SAUDI MINISTER OF INDUSTRY WILL VISIT BONN IN THE LATE SPRING AND THE FRG HOPES TO CONCLUDE THE AGREEMENT AT THAT TIME.

5. TECHNICAL ASSISTANCE AGREEMENT: THIS AGREEMENT MET THE SAME FATE AS THE INVESTMENT AGREEMENT, WITH

KUSCHEL AGAIN BLAMING THE SAUDIS FOR THE FAILURE TO  
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SIGN AN ACCORD. SINCE THE SAUDIS WILL PAY FOR ALL  
TECHNICAL ASSISTANCE PROJECTS, THERE IS REALLY NOTHING  
STANDING IN THE WAY OF AN AGREEMENT EXCEPT SAUDI  
RED TAPE. THE FRG WANTS THE AGREEMENT SO THAT GERMAN  
FIRMS PARTICIPATING IN TECHNICAL ASSISTANCE  
PROJECTS CAN OBTAIN OFFICIAL STANDING AND HAVE THEIR  
PARTICIPATION IN SUCH PROJECTS FACILITATED. A VAST  
TRAINING PROGRAM FOR SAUDI STUDENTS AND TECHNICIANS IN  
SEVERAL INDUSTRIAL AREAS IS ALSO TIED TO THE CONCLUSION  
OF THIS AGREEMENT.

6. MEMORANDUM ON ECONOMIC COOPERATION: SINCE NEITHER  
OF THE ABOVE TWO AGREEMENTS COULD BE CONCLUDED, A  
PROTOCOL WAS PREPARED FOR FRIDERICH'S SIGNATURE PRIOR  
TO HIS DEPARTURE. IT CONTAINED THE USUAL HORTATORY  
PARAGRAPHS ON THE DESIRABILITY OF EXPANDING INDUSTRIAL  
COOPERATION, AND CALLED FOR MORE JOINT PROJECTS IN THE  
SPHERES OF STEEL, PETROCHEMICALS, FERTILIZER, AND  
WATER DESALINIZATION. THE MEMORANDUM ALSO SPOKE OF  
EXCELLENT PROSPECTS FOR THE JOINT PARTICIPATION OF  
GERMAN AND SAUDI FIRMS IN INFRASTRUCTURE DEVELOPMENT,  
IN PARTICULAR TRANSPORTATION, ELECTRICITY, WATER, GAS  
AND TELECOMMUNICATIONS. KUSCHEL EMPHASIZED, HOWEVER,  
THAT THE GERMAN GOVERNMENT CAN PLAY NO ROLE IN  
FURTHERING SUCH COOPERATION; THE INITIATIVE MUST COME  
FROM GERMAN FIRMS.

7. INDUSTRIAL COOPERATION: APPROXIMATELY FIFTEEN  
REPRESENTATIVES OF LARGE GERMAN FIRMS ALREADY ENGAGED  
IN PROJECTS IN SAUDI ARABIA ACCOMPANIED FRG GOVERNMENT  
OFFICIALS. SALZGITTER REPRESENTATIVES REVIEWED  
PROSPECTS FOR CONSTRUCTION OF A STEEL MILL; VEBA  
OFFICIALS DISCUSSED OIL; DEMINEX REPRESENTATIVE  
CONSIDERED BOTH OIL EXPLORATION CONCESSIONS AND DEVELOP-  
MENT OF SAUDI MAGNESIUM RESOURCES; AND BERLIN CONSULT  
DISCUSSED TRANSPORTATION PROJECTS. KUSCHEL ALSO  
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POINTED TO PROSPECTS FOR COOPERATION IN THE FIELDS  
OF AGRICULTURE, FOOD INDUSTRY, IRRIGATION, CEMENT  
PLANTS, AND MOTOR VEHICLE CONSTRUCTION. WITH RESPECT  
TO MAGNESIUM, DEMINEX AND THE GERMAN INSTITUTE FOR  
GEOLOGY AND RAW MATERIALS WILL CONTINUE THEIR DIS-

CUSSIONS WITH PETROMIN, WITH KUSCHEL CHARACTERIZING PROSPECTS IN THIS FIELD AS MORE PROMISING THAN THE ENERGY-RELATED SECTORS. IRRIGATION IS A SUBJECT WHICH INTERESTS THE FRG CONSIDERABLY AND THE GERMAN TECHNICAL ASSISTANCE AGENCY HAS MADE PROPOSALS WHICH ARE NOW UNDER CONSIDERATION IN RIYADH.

8. EXPORT CREDITS: NEWSPAPERS REPORT THAT THE FRG

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R 091851Z FEB 77  
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CEILING ON HERMES GUARANTEES ON CREDITS FOR EXPORTS TO SAUDI ARABIA HAD BEEN INCREASED BY 33 PERCENT TO DM 10 BILLION. KUSCHEL TOLD US THAT THERE HAS NEVER BEEN A CEILING ON CREDIT GUARANTEES AND THAT SAUDI CREDITWORTHINESS WAS SO INDISPUTABLE THAT THE LEVEL OF GUARANTEES COULD GO AS HIGH AS NECESSARY.

9. LIQUIFIED NATURAL GAS (LNG): NEWSPAPERS ALSO REPORTED FRG-SAUDI DISCUSSIONS ON PROSPECTS FOR SAUDI

DELIVERIES OF LNG TO THE WEST. TO KUSCHEL'S KNOWLEDGE, NO SUCH DISCUSSIONS TOOK PLACE AND HE WAS VERY SKEPTICAL REGARDING ANY FUTURE DEVELOPMENTS IN THIS AREA. HE POINTED OUT THAT THE SAUDIS, AT THE PRESENT TIME, HAVE NO FACILITIES FOR LIQUIFYING THE NATURAL GAS AND HE LIMITED OFFICIAL USE

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DID NOT BELIEVE THAT THE CONSTRUCTION OF SUCH FACILITIES WAS NOW ECONOMICALLY VIABLE.

10. SAUDI COMPLAINTS ABOUT INCREASE IN IMPORT PRICES: KUSCHEL CONFIRMED THAT THE SAUDIS HAD COMPLAINED ABOUT SIGNIFICANT INCREASES IN THE PRICES OF ITEMS THEY ARE PURCHASING FROM THE FRG. THE GERMAN SIDE RESPONDED TO THIS CRITICISM, NOTING THAT GERMAN EXPORT PRICE INCREASES WERE THE SMALLEST AMONG SAUDI ARABIA'S MAJOR SUPPLIERS AND THAT THE CHIEF REASONS FOR PRICE INCREASES WERE DELAYS IN PORT UNLOADING AND OTHER SAUDI INTERNAL INFRASTRUCTURE PROBLEMS. KUSCHEL NOTED THAT THE SAUDIS REALIZE THAT THE GERMAN GOVERNMENT CAN DO NOTHING ABOUT THE PRICES CHARGED BY GERMAN FIRMS, AND HE SPECULATED THAT THEY WERE CHIEFLY INTERESTED IN VENTING THEIR UNHAPPINESS FOR THE BENEFIT OF THE INDUSTRIAL REPRESENTATIVES WHO HAD ACCOMPANIED FRIDERICH'S.

11. THIRD MIXED COMMISSION MEETING: THE TWO GOVERNMENTS AGREED THAT THE MIXED COMMISSION WILL MEET ANNUALLY WITH THE SITE ALTERNATING BETWEEN BONN AND RIYADH. STOESEL

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## Message Attributes

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